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OIL AND GAS LEASE

STATE OF TEXAS §

COUNTY OF TARRANT §

THIS LEASE AGREEMENT ("Lease") is made effective JAN. 5<sup>th</sup>, 2008, between Missy SHATO and husband w. Alison Harper whose address is 3124 Watercress Cir, Arlington Tx 76012, (hereafter referred to as "Lessor"), and Dale Property Services, LLC, whose address is 2100 Ross Avenue, Suite 1870, LB-9, Dallas, Texas 75201 (hereafter referred to as "Lessee").

1) **Grant.** In consideration of Ten Dollars (\$10) and other consideration in hand paid, Lessor grants and leases exclusively unto Lessee for the sole purpose of exploring, drilling, and producing oil and gas, laying pipelines and building roads and tanks thereon to produce, save, treat, process, store, and transport oil and gas and other products manufactured from oil and gas produced from the land, the following described land (the "Land") in Tarrant County, Texas; to-wit:

0.133 acres of land, more or less, being Lot 22, Blk 5R1, Waterway Park North, an Addition to the City of Arlington, Tarrant County, Texas, according to the Plat thereof recorded in Volume A, Page 221/222 Plat records, Tarrant County, Texas.

2) **Primary Term.** This Lease is for a term of three (3) years from this date (called "Primary Term") and so long thereafter as oil or gas is produced from the Land in paying quantities or the lease is continued in effect as otherwise provided herein.

3) **Minerals Covered.** Notwithstanding any other provision hereof, this lease covers only oil and gas. The term "oil and gas" means oil, gas, and other liquid and gaseous hydrocarbons produced through a well bore.

4) **Royalty.**

a) The royalties to be paid Lessor are:

1) 25% of all oil (including distillate or condensate and other liquid hydrocarbons) produced and saved from the Land, the same to be delivered at the well or to the credit of Lessor into the pipeline to which the well or wells may be connected.

2) 25% of the gross proceeds received by Lessee at the point of delivery or first sale of all gas, including casinghead gas or other gaseous substances, produced from the Land.

3) 25% of the market value of all plant products (including residue gas), free of any processing cost, where gas is processed in a plant on or off the Land by Lessee or any affiliated person or entity, and if processed, but not by Lessee or an affiliated person or entity, 25% of that part of the gross proceeds received by Lessee for the processed gas and products therefrom that are allocable to the production from the Land.

b) Lessor's royalty may not be charged, directly or indirectly, with any of Lessee's expenses of production, gathering, compressing, treating or marketing the oil and gas produced from the Land, and all of such expenses shall be considered costs of production and not post production costs. It is the intent of the parties that the provisions of this Section 4(b) are to be fully effective and enforceable and are not to be construed as "surplusage" under the principles set forth in *Heritage Resources v. NationsBank*, 939 S.W.2d 118 (Tex. 1997). **Lessor's royalty may be charged with costs and expenses of transporting, dehydrating, compressing, processing and treating gas produced from the lease as long as such costs are charged to Lessee by a gas purchaser or transportation company which is an unrelated third party in an arms length transaction and provided such costs do not exceed those charged for performing similar services by unrelated third party in arms length transactions at the point of sale.**

c) Lessee must disburse or cause to be disbursed to Lessor its royalty on production from a particular well not later than 120 days after the end of the month following first delivery of gas from the well into the pipeline. Thereafter, Lessee must disburse or cause to be disbursed to Lessor by the last day of each month its royalty on production for which Lessee received payment in the preceding month, but in no event shall royalty be paid more than 60 days

after the last day of the month of production. If not paid when due, Lessor's royalty shall bear interest at the maximum lawful rate from due date until paid, which amount Lessee agrees to pay.

d) Acceptance by Lessor of royalties that are past due shall not act as a waiver or estoppel of its right to receive interest due thereon unless Lessor expressly so provides in writing signed by Lessor.

e) The receipt by Lessee, or Lessee's operator, from a purchaser or a pipeline company of proceeds of production for distribution to Lessor will not result in Lessee, or Lessee's operator, acquiring legal or equitable title to those proceeds, but Lessee, or Lessee's operator, will at all times hold the proceeds in trust for the benefit of Lessor. Notwithstanding the insolvency, bankruptcy, or other business failure of a purchaser of production from the Land or pipeline company transporting production from the Land, Lessee will remain liable for payment to Lessor for, and agrees to pay Lessor all royalties due Lessor together with interest if not timely paid.

f) Gas produced from the Land or pooled unit that the Land is included therewith shall not be commingled with gas produced from any other lands prior to the point where the gas produced from this lease passes through the meter which will measure the gas for calculating the payment made by the purchaser of gas production. In addition, any gathering system constructed on the lease shall not be used for transporting gas produced from land not covered by this lease, without the Lessor's prior written consent, which consent shall not be unreasonably withheld.

**5) Shut-in Royalty.** If there is a gas well on this Lease capable of producing in paying quantities, but gas is not being sold, Lessee shall pay or tender in advance \$10.00 per acre annual royalty for each well from which gas is not being sold. Payment with respect to a well will be due within 90 days after the well is shut-in. While royalty payments are timely and properly paid, this Lease will be held as a producing lease. After the expiration of the primary term, the right of Lessee to maintain this Lease in force by payment of shut-in gas royalty is limited to two consecutive years and a cumulative four years within any eight year period. The obligation of Lessee to pay shut-in royalty is a condition and not a covenant. The payment or tender of royalty under this paragraph may be made by the check of Lessee mailed or delivered to the parties entitled thereto on or before the due date.

#### **6) Continuous Development.**

a) If this Lease is maintained upon the expiration of the primary term by production, drilling or otherwise as provided herein, this Lease will remain in force as to all acreage covered hereby, as long as there is no lapse of more than 120 days between the completion of one well thereon and the commencement of the actual drilling of another well thereon. For the purpose of computing the time for the commencement of actual drilling of a well, each well drilled shall be deemed to have been completed on the date of the release of the drilling rig from the drillsite of the well, if a dry hole, or on the date of completing the Texas Railroad Commission Potential Test if the well is completed as a well capable of producing oil or gas.

b) If after the expiration of the primary term production from any well shall cease for any cause, Lessee shall have 90 days from the cessation of production to commence, and thereafter prosecute with due diligence drilling or reworking operations in a good faith attempt to restore production from the tract on which the well is located with no cessation of more than 90 days, and if such operations result in production, this lease shall continue as to such tract for so long as production in paying quantities continues from such tract.

c) Upon the expiration of the Primary Term, or such later time as the Lease is not maintained by continuous development, this Lease will terminate except as to the acreage included within a proration unit surrounding any well that is then producing in paying quantities or deemed to be producing in paying quantities by virtue of payment of shut-in royalties (hereafter a "Retained Tract"), and as to each Retained Tract, the Lease will then terminate as to all depths below 100 feet below the stratigraphic equivalent of the base of the deepest producing formation on the Retained Tract. The Lease will be treated as a separate lease with respect to each Retained Tract and will continue so long as production in paying quantities continues from the tract.

d) As used in this Lease, the term "horizontal well" means one that meets the definition of a "horizontal drainhole well" under Statewide Rule 86 of the Texas Railroad Commission, and a "vertical well" is a well that is not a horizontal well. A Retained Tract for a vertical well, other than one completed in the Barnett Shale formation, may not exceed the size permitted by the Railroad Commission of Texas for a proration unit under the applicable field rules, but if field rules have not been established, a Retained Tract for such a vertical well may not exceed 40 acres in size; provided however, a Retained Tract for a vertical well producing from the Barnett Shale formation may not exceed 40 acres in size. A Retained Tract for horizontal well will hold 40 acres plus the additional acreage listed in the table in Rule 86 under Additional Acreage Assignment for Fields with a Density Rule of 40 Acres or less and must comply with the requirements of Rule 86. Lessor and Lessee must agree upon the shape of the Retained Tracts with the intent that each will be a compact, regular shape that will provide Lessor with the maximum acreage available for oil and gas development for land not included in a retained tract. Subject to the preceding sentence, Lessor's approval of the shape of Retained Tracts will not be unreasonably withheld. A gas well that thereafter becomes an oil well will hold only the acreage permitted for an oil well tract. Within 60 days after the last to occur of the expiration of the Primary Term or the continuous drilling program, Lessee must file in the county records and furnish to Lessor a document designating each Retained Tract and the retained depths thereunder and releasing all other depths and acreage. If Lessee fails to file timely a required document after 30 days prior written notice from Lessor, then Lessor may do so, and the filing will bind Lessee.

**7) Pooling.** In the event the lands covered by this lease are pooled and/or unitized with other lands, then these lands may only be pooled and/or unitized in their entirety and not partially, and may be pooled only with Lessor's written consent. The size of the unit shall not exceed 320 acres plus a maximum acreage tolerance of 10%. Lessee shall file for record in Real Property Records where the land is located, an instrument describing and designating the pooled acreage and depths for the pooled unit, and upon such recordation, the unit shall become effective as to all parties hereto. Lessee may at its election exercise its pooling option before or after commencing operations. In the event of operations for drilling on or production of oil or gas from any part of the pooled unit which includes the land covered by this Lease, the operations or production shall be considered as operations on or production of oil or gas from the land covered by this Lease, whether or not the well is located on the land covered by this Lease. For the purpose of computing the royalties to which owners of royalties payments out of production shall be entitled on production of oil or gas, or either of them, from the pooled unit, there shall be allocated to the land covered by this Lease and included in the unit that prorated portion of the oil and gas, or either of them, produced from the pooled unit which the number of mineral acres covered by this Lease and included in the pooled unit bears to the total

number of mineral acres included in the pooled unit. Royalties shall be computed on the portion of such production whether it be oil and gas, or either of them, so allocated to the land covered by this Lease and included in the unit just as though such production was from the land covered by this Lease.

**8) Force Majeure.** Should Lessee be prevented by reason of Force Majeure from complying with any express or implied covenant of this Lease (other than a requirement to pay money that has accrued and was due before the Force Majeure event), from conducting drilling or reworking operations on the Land, or from producing oil or gas, then while so prevented, that covenant will be suspended; Lessee will not be liable for damages for failure to comply therewith; this Lease will be extended so long as Lessee is prevented from conducting drilling or reworking operations on or from producing oil or gas from the Land; and the time while Lessee is so prevented will not be counted against Lessee. "Force Majeure" means any Act of God, riot, war, strike, insurrection, any federal or state law, or any rule or regulation of governmental authority, or other similar cause (other than financial reasons). This paragraph is, however, in all things subject to the limitations of time during which this Lease may be continued in force by the payment of shut-in gas royalties.

**9) Special Warranty.** Lessor warrants title to the Land by, through and under Lessor, but not otherwise. By acceptance of this lease, Lessee acknowledges that it has been given full opportunity to investigate and has conducted sufficient investigation to satisfy itself as to the title to the Land, and Lessee assumes all risk of title failures. If Lessor owns an interest in the Land less than the entire fee simple estate, then the royalties payable hereunder shall be reduced proportionately. Lessee, at its option, may discharge any tax, mortgage, or other lien on the Land, and in the event Lessee does so, Lessee will have the option to apply the royalties accruing to Lessor toward payment of it.

**10) Notices.** All notices shall be deemed given and reports shall be deemed delivered if sent by certified letter, personal delivery, Federal Express, or other courier service, properly addressed and deposited in the United States mail, postage prepaid, to Lessor and Lessee at the addresses shown above, or by personal delivery or delivery by Federal Express or other courier service which provides verification of receipt.

**11) Attorney's Fees.** In the event that Lessor or Lessee shall be required to employ legal counsel for the enforcement of any provision of this lease and prevails, the party found to be in default of the provisions of the lease shall be liable to the other party for reasonable attorney's fees and expenses incurred in connection with enforcing the rights under this lease.

**12) Indemnity.** LESSEE AGREES TO INDEMNIFY AND HOLD HARMLESS LESSOR, AND LESSOR'S REPRESENTATIVES, SUCCESSORS, AND ASSIGNS AGAINST ALL EXPENSES, CLAIMS, DEMANDS, LIABILITIES, AND CAUSES OF ACTION OF ANY NATURE FOR INJURY TO OR DEATH OF PERSONS AND LOSS OR DAMAGE TO PROPERTY, INCLUDING, WITHOUT LIMITATION, REASONABLE ATTORNEY'S FEES, EXPERT FEES, AND COURT COSTS, CAUSED BY LESSEE'S OPERATIONS ON THE LAND OR LESSEE'S MARKETING OF PRODUCTION FROM THE LAND OR ANY VIOLATION OF ANY ENVIRONMENTAL REQUIREMENTS BY LESSEE. AS USED IN THIS PARAGRAPH, THE TERM "LESSEE" INCLUDES LESSEE, ITS AGENTS, EMPLOYEES, SERVANTS, CONTRACTORS, AND ANY OTHER PERSON ACTING UNDER ITS DIRECTION AND CONTROL, AND ITS INDEPENDENT CONTRACTORS.

**13) Insurance Coverage.** At all times while this Lease is in force, Lessee shall acquire and maintain insurance covering all of its operations on the Land, including any work performed on its behalf by contractors, sub-contractors, and others, naming Lessor and related individuals and entities designated by Lessor as additional insureds. The policy shall include coverage for comprehensive general liability for bodily injury and property damage, blowout and loss of well coverage and coverage for any damage to the environment, including coverage for the cost of cleanup and surface mediation. The general liability insurance shall be in the minimum amount of Five Million Dollars (\$5,000,000). Such insurance requirements may be met by a combination of self-insurance, primary, and excess policies. Upon written request, Lessee shall furnish a certificate from the issuing insurance company or companies evidencing the coverage.

**14) No Surface Use.** Notwithstanding anything contained herein, Lessee shall not conduct any surface operations on the herein leased premises, however, Lessee shall have the right to explore for the oil and gas under the leased premises and the right to drill, operate and produce directional and/or horizontal wells through and under the leased premises, irrespective of the bottom hole locations of such wells. To this end, Lessor grants to Lessee a subsurface easement for all purposes associated with such horizontal and/or directional wells.

**15) Continuous Development.** If, at the expiration of the Primary Term, oil or gas is not being produced from the Land, but Lessee has commenced the drilling of a well on the Land, the Lease will not terminate but will remain in effect for so long thereafter as operations are carried out with due diligence with no cessation of more than 90 days, and if the operations result in the production of oil or gas, the Lease shall remain in force and effect as otherwise provided herein. For the purposes of this Lease, "operations" means operations for any of the following: drilling, testing, completing, reworking, recompleting, deepening, plugging back, or repairing of a well in search for or in the endeavor to obtain production of oil or gas. If this Lease is maintained beyond the expiration of the Primary Term by production or otherwise, it will remain in force as to all acreage and depths as long as Lessee commences drilling another well prior to 120 days next following the completion of the last well on the Land. The commencement of actual drilling means the penetration of the surface with a drilling rig capable of drilling to the anticipated total depth of the well. After a well is commenced, drilling operations must continue in a good and workmanlike manner in a good faith effort to reach the anticipated total depth with no cessation of operations for more than 90 consecutive days. If the maximum time for the commencement of the actual drilling of a well expires without the commencement of the well, or upon the expiration of the Primary Term if the Lease is not maintained by continuous drilling, this Lease will terminate except as to the Retained Tract (defined above) surrounding any well that is then producing in paying quantities or deemed to be producing in paying quantities by virtue of payment of shut-in royalties, and as to each Retained Tract, the Lease will terminate as to all depths below the stratigraphic equivalent of the base of the deepest producing formation on the Retained Tract. The Lease will be treated as a separate lease with respect to each Retained Tract and will continue so long as production in paying quantities continues from the Retained Tract. If production from a Retained Tract ceases from any cause, this Lease will terminate as to that tract unless Lessee commences operations for drilling or reworking on the Retained Tract within sixty (90) days following the cessation of production, in which case the Lease as to that tract will continue in force as long as the operations are prosecuted with no cessation of more than 90 consecutive days, and if they result in production, so long thereafter as there is production from the Retained Tract.

**16) Releases.** Within 60 days after the last to occur of the expiration of the Primary Term or the continuous drilling

program, Lessee must file in the county records and furnish to Lessor a document designating each Retained Tract by metes and bounds and the retained depths thereunder and releasing all other depths and acreage. A gas well that thereafter becomes an oil well will hold only the acreage permitted for an oil well, and Lessee must file in the county records a redesignation of the tract as an oil well tract. If Lessee fails to file timely a document required by this paragraph after 30 days prior written notice from Lessor, then Lessor may do so, and the filing will bind Lessee.

**17) Option Clause.** Notwithstanding anything to the contrary herein contained, Lessee is hereby granted the exclusive option, to be exercised prior to the date on which this lease or any portion thereof would expire in accordance with its terms and provisions, of extending this lease for an additional period of two (2) years as to all or any portion of the acreage described herein. The only action required by Lessee to exercise this option being payment to Lessor, at the above address, of an additional consideration of the sum of \$6,000.00 per net mineral acre so extended, which payment shall cover the entire two (2) year extended primary term. Should this option be exercised as herein provided, it shall be considered for all purposes as though this lease originally provided for a primary term of five (5) years. If this lease is extended as to only a portion of the acreage then covered thereby, Lessee shall designate such portion by a recordable instrument.

**18) Miscellaneous Provisions.**

a) In the event this lease expires for any reason as to all or any part of the Land, Lessee shall promptly furnish Lessor with a written, recordable release covering all of the Land or that portion of the Land to be released.

b) Nothing in this lease negates the usual implied covenants imposed upon Lessee.

c) It is further agreed and understood that Lessee, upon written request, will furnish Lessor all information that Lessee acquires or has acquired by drilling any well on the leased premises or any lands pooled therewith, including all logs, drilling reports, test data, and other surveys, including the final of seismic surveys. Lessor agrees to keep all such information confidential until this lease terminates or such information becomes public otherwise than through release by Lessor or becomes available to Lessor from sources other than Lessee. Additionally, upon written request, Lessee shall furnish Lessor with copies of all title opinions prepared for Lessee covering the land or any portion thereof.

d) Upon written request, Lessee shall provide reports made to the Railroad Commission of Texas or other governmental authority having jurisdiction, including, but not limited to, applications to drill, well tests, completion reports, plugging records, production reports, and unit designations Lessee shall, at the same time, deliver a copy of the report to Lessor.

e) Lessee will divulge to Lessor correct information, upon written request by Lessor as to each well, the production therefrom, and such technical information as Lessee may acquire.

f) No obligation of Lessee to pay money that has accrued and was due before the Force Majeure event occurred under this lease will be excused or delayed by reason of such Force Majeure event. Lessee's obligations to pay money under this lease are to be performed in Tarrant County, Texas. Paragraph headings are used in this lease for convenience only and are not considered in the interpretation or construction of this lease. The execution or ratification by Lessor of any division order, gas contract, or any other document will not alter any provision of this lease unless the intent to do so is expressly stated in the document.

g) This lease is binding upon and for the benefit of Lessor, Lessee, and their respective heirs, personal representatives, successors, and assigns. Executed on the date first above written.

**19) Noise Abatement.** Lessee shall minimize the impact of rig, compressor, generator and operational noise. Noise levels associated with Lessee's operations related to the drilling, completion and reworking of wells shall be kept to a reasonable minimum, taking into consideration reasonably available equipment and technology in the oil and gas industry, the level and nature of development and surface use elsewhere in the vicinity of Lessee's drill sites and the fact Lessee's operations are being conducted in or near an urban residential area. If Lessee utilizes any non-electric-powered equipment in its operations, Lessee shall take reasonable steps to muffle the sound therefrom by installing the best noise reduction and abatement equipment, devices and technology, reasonably available especially in deflecting noise away, with the usage of membranes, hospital grade mufflers and other sound dampening equipment, from the Land.

**20) Well Location.** Notwithstanding anything to the contrary in this Lease, Lessee shall not enter upon the surface of, cross over, place any structure, building, well, or compressor stations upon or conduct any operations (including but not limited to geophysical/seismic operations) on the Land or within six hundred feet (600') from the Land. Notwithstanding the foregoing, no structures, buildings, wells, compressor stations or other operations that might constitute a nuisance shall be located in the shaded areas on the attached Exhibit A. Lessee shall not use residential or neighborhood streets or thoroughfares, located on the Land, in developing the leased premises or any lands pooled therewith or otherwise.

LESSOR:

By: Misty Shatto

By: William Henry

STATE OF TEXAS §

COUNTY OF TARRANT §

This instrument was acknowledged before me on this 5<sup>th</sup> day of January, 2006  
by Misty Shatto  
Print Lessor(s) Name

Scarlett Sizer  
Notary Public in and for the State of Texas

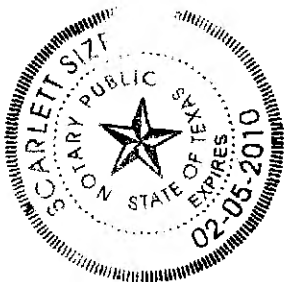


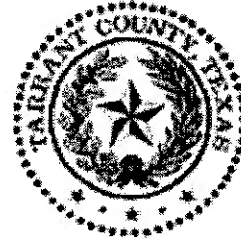
STATE OF TEXAS §

COUNTY OF TARRANT §

This instrument was acknowledged before me on this 5<sup>th</sup> day of January 2008  
by William Harper  
Print Lessor(s) Name

Scalett Sizer  
Notary Public in and for the State of Texas





DALE RESOURCES LLC  
2100 ROSS AVE STE 1870 LB-9

DALLAS TX 75201

Submitter: DALE RESOURCES LLC

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SUZANNE HENDERSON  
TARRANT COUNTY CLERK  
TARRANT COUNTY COURTHOUSE  
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By: \_\_\_\_\_



**D208467087**

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OF THE DESCRIBED REAL PROPERTY BECAUSE OF COLOR OR  
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